LNG seen as 10 pct of overall U.S. gas use by 2010

SAN FRANCISCO, Nov 12 (Reuters)

With traditional U.S. natural gas supplies dwindling, liquefied natural gas (LNG) imports could make up about 10 percent of overall U.S. gas use by 2010, CIBC World Markets said in a report released Monday.

The report's finding is in line with other recent market analysis that LNG, traditionally just about 1 percent of overall U.S. gas consumption, will benefit in the coming years as demand for cleaner-burning gas by power plants outstrips traditional U.S. gas supplies, CIBC said.

LNG, shunned for two decades due to high costs and safety concerns, has seen a renewed wave of interest in the U.S. over the past with 19 projects proposed to serve U.S. markets and plans to restart two of the four U.S. LNG terminals shut years ago for lack of demand.

"At the end of the day, we expect LNG to account for almost 10 percent of overall gas use over the next decade, and that's based on projections for a 7 billion cubic feet a day (bcfd) to 8 bcfd rise in LNG use," Christopher Theal, a CIBC analyst, said.

Theal said LNG use in the U.S. would also rise due to limited pipeline capacity from Canada into the U.S. and increased gas demand in Alberta, Canada's energy capital.

The CIBC report projects U.S. gas demand to increase 2 percent a year to 27 trillion cubic feet by 2010, with traditional U.S. gas production rising just 0.5 percent a year, resulting in a supply deficit of 9 bcfd over the next decade.

The report forecasts LNG imports to account for 40 percent of all U.S. gas imports by 2010, up from 7 percent today, with the rest coming from Canada.

LNG's costly transportation and liquefaction processes involve super-cooling and injecting gas into spherical high-pressure tanks on special LNG carriers.

U.S. gas prices have plunged this year about 75 percent to the $2 per million British thermal units (mmBtu) area -- from $10 in December -- but many analysts expect a mid-to-late-2002 recovery in the U.S. economy to send gas prices back to the $3-$4 area, where LNG is economically justifiable.

MONEY, SECURITY RISKS

Theal said he does not expect all 19 LNG proposals announced over the past year for the U.S. eastern seaboard, Texas, the Gulf Coast, and the West Coast to be built due to financial and security risks.

"We expect a number of these new projects to make solid returns, but some of these companies will have tougher access to capital and the security risks LNG terminals pose to surrounding municipalities will make all of them getting built more difficult," he said.

Theal said he did not know yet of any companies considering the possibility of consolidating their projects to share the huge financial risks involved in building an LNG terminal, which can run up to $1 billion.

On Monday, the Federal Energy Regulatory Commission (FERC) said national security concerns have prompted it to reconsider its October decision approving a restart of Williams Cos. LNG terminal near a nuclear power plant in southern Maryland.

In an order issued on Friday, the FERC said it will hold a closed-door conference Nov. 16 with state, local and federal officials "to take further evidence with respect to national security implications" connected with restarting the plant.

The LNG facility in Boston was closed for about a month following the Sept. 11 attacks on the World Trade Center and the Pentagon, but resumed deliveries in late October.

State officials feared an LNG tanker entering Boston harbor could be subject to sabotage, causing massive damage to surrounding areas.

El Paso Corp. recently applied with FERC to restart its LNG terminal in Georgia on Dec. 1.

Lake Charles, La., is the site of the other LNG terminal that has been in operation for years.
